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# BEFORE THE POSTAL REGULATORY COMMISSION WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING	
(Proposal Five)	

Docket No. RM2021-8

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTICAL PRINCIPLES (PROPOSAL FIVE)

(August 4, 2021)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, relating to improvements in the treatment of surface and air transportation costs in the ICRA, is labeled Proposal Five and is discussed in detail in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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475 L'Enfant Plaza, S.W. Washington, D.C. 20260-1137 (202) 277-6333 eric.p.koetting@usps.gov August 4, 2021 Proposal Five: Using Additional Foreign Postal Settlement System (FPS) Data to Distribute Account 53281 Expenses in the ICRA

#### Proposal:

The Postal Service proposes to treat International surface transportation to Canada separately from the treatment of International air transportation. The proposal uses additional FPS data to develop a distribution key to more accurately distribute outbound International surface transportation expenses to Canada (Account 53281). After isolating International surface transportation to Canada for separate treatment, the proposal continues to use the International Air Transportation file to distribute outbound International air transportation expenses (Accounts 53201 and 53212), with a refinement to remap surface parcels to regular parcels in the distribution.

Outbound surface transportation expenses are reported in General Ledger account 53281 (INTERNATIONAL SURFACE TRANSPORTATION). The current procedure aggregates expenses reported in account 53281 with expenses reported in accounts 53201 (INTERNATIONAL AIR TRANSPORTATION-CIVILIAN) and 53212 (INTERNATIONAL TRANSPORTATION-SURFACE AIRLIFT). Account 53286 (TRANS MAIL-FRGN CNTRS-GNET) is treated in separate calculations for the FedEx contract.

The proposal would isolate account 53281 expenses from the other expenses and use additional data available from FPS to distribute account 53281 expenses to international mail categories transported to Canada by surface. Hence, after removing account 53281 from the prior aggregation, the sum of accounts 53201 and 53212 would remain for a separate distribution using the International Air Transportation Data 2020 product and country data.

### Rationale:

As part of its effort to estimate costs during the height of the COVID pandemic in FY 2020, and subsequently in response to Information Requests during the most recent Annual Compliance Report process, the Postal Service undertook a more thorough review of international transportation costs. That review revealed that account 53281 is solely for expenses incurred for transporting mail to Canada by highway. As a result, the Postal Service proposes to change the costing methodology for international transportation to Canada as reported in account 53281 by using additional information that is available from FPS.

Removing account 53281 from the current treatment that sums accounts 53201, 53212 and 53281 results in the distribution of only air expenses. With new surface and air treatments for accounts 53201, 53212 and 53281, and account 53286 continuing to receive its separate treatment as part of the FedEx agreement, there is no longer a need for the diversion factors that are discussed in the <u>Cost Adjustments</u> section below.

The ICRA has traditionally calculated outbound international transportation expenses as described in USPS-FY20-NP5 FY 2020 ICRA Overview/Technical Description, Part II, Chapter 4, Development of International Transportation Costs. Specifically, under the **Processing Elements** section:

Processing of international transportation data is accomplished entirely in the FY 2020 ICRA model. International transportation costs for air mail are determined by multiplying unit costs (developed from International Accounting reports for NOM data) by volumes (gross weights from SIRVO-IODIS and Express Mail International) on a category of mail and country basis. The resulting country-specific costs are subsequently compiled into the required country groups. Finally, the total computed costs are adjusted to reconcile with the pertinent accounting book

information.

## Air Transportation Cost Computations

The NOM air cost data separately present (1) the costs and kilograms for LC/AO, PP, EMS, and M-Bags, and (2) the costs and kilograms for ISAL and ISAL M-bags. The ICRA develops international air transportation costs in a similar manner in each case. The NOM data is converted to Excel worksheets and copied to the appropriate worksheets in the Inputs.xls workbook.

#### Cost Adjustments

Adjustments are applied separately to (1) total distributed air costs, (2) total distributed sea costs, and (3) total ISAL costs. In each case, the adjustments force the totals to match the appropriate account balance. These cost adjustments are implemented in the TRNADJ worksheet of the Outbound Calcs.xls workbook in the FY 2020 ICRA model. The adjustments are applied in the ICRA Database worksheet of Reports.xls to each of the individual classes as international mail transportation costs on a country-by-country basis. Certain air transportation costs for Canada are adjusted to reflect the actual transportation of some airmail to Canada by highway services.

### International Highway Costs

Highway costs for international mail are developed by obtaining NOM data regarding the proportions of the total outbound volumes (by cubic feet) destined for Canada that use highway transportation.

The proposal mostly maintains the methodology described in the <u>Air</u>

<u>Transportation Cost Computations</u>, but for all countries removes account 53281 from the benchmarking of International air transportation expenses in the TRNADJ worksheet of the Outbound Calcs.xls workbook in the FY 2020 ICRA model.

The international highway costs section is the primary subject of this proposal.

Currently, the proportions of total outbound kilograms to Canada provided by

International Logistics -- formerly Network Operations Management (NOM) -- are used to develop diversion ratios for mail types that are transported by surface.

The transportation of and payment for these mail types are handled through three separate mail categories: letters, parcels and EMS. Payment is made by the weight of each general mail category, and appropriate attribution requires a method to disaggregate the general mail categories to outbound mail classes. The current method applies the overall diversion ratio to all the outbound mail classes within the general mail category. For example, 77 percent was applied equally to outbound letter post mail categories.

The proposal would use US to Canada ISC origin destination pairs by ICRA outbound mail class to replace the diversion percentages. The Export tab of Excel file FY20 CA Sur Trn Distri Key.xlsx contains total surface data to Canada. The International Logistics rules of what was flown and what was trucked to Canada in FY20 are applied to the individual ISC data on the next seven tabs. This step refines the diversion to specific origin destination pairs and mail classes. The Summary tab brings together the seven individual tabs to calculate a distribution key for outbound surface mail to Canada reported in account 53281.

Using additional FPS data to distribute the expenses incurred for outbound international surface transportation to Canada and refining the treatment of air transportation costs would improve ICRA reporting by providing a finer level of mail category detail that: 1) eliminates treating the sum of air and surface costs together, 2) eliminates the need to develop air to surface diversion factors to isolate or divert Canada surface transportation expenses, and 3) provides the basis for the distribution

of surface costs using surface data and the distribution of air costs using air data.

## Impact:

Two non-public attachments accompanying this proposal show its modest impact, and both are filed under seal as part of USPS-RM2021-8-NP1. Non-public Attachment 1 is a comparison between the Summary, Market Dominant and Competitive pages filed as part of USPS-FY20-NP2 (Revised 2/22/21) and the Summary, Market Dominant and Competitive pages that would have been generated for FY2020 under this proposal. The USPS-FY20-NP2 (Revised 2/22/21) tabs are shown in brown, the proposal tabs are shown in green, and the differences are shown in pink.

The pink A Pages Summary Diff tab displays the impact on total Market

Dominant and total Competitive products, yielding a net impact of zero on total costs.

The pages that follow display the detailed impacts on Market Dominant products and

Competitive products. Overall, the proposal would shift roughly \$158 (000) in

attributable costs from Market Dominant to Competitive.

Non-public Attachment 2 is a comparison between the NSA summary results filed as part of the NSA Summary (Unified) workbook under USPS-FY20-NP2 ICM Costing (Revised 2/22/21) and the NSA summary results for FY 2020 that would have been generated under this proposal. The USPS-FY20-NP2 (Revised 2/22/21) amounts are shown on the second tab, the proposal amounts are shown on the third tab, and the differences are shown on the first tab. The change in Total Volume Variable and Product Specific Cost on the Summary (diffs) tab of Attachment 2 reflect the International NSA differences on the pink A Pages Summary Diff tab of Attachment 1. These tabs show that all NSAs that were compensatory in FY 2020 would have

remained so under this proposal.

# Mechanics:

The first change occurs to the trnadj tab of Outbound Calcs.xlsx of USPS-FY20-NP2 Core Files directory (Revised 2/22/21). The weight diversions calculated in the trnadj tab are no longer needed, the pieces column is removed because it is not used, and a note is added to row 97 explaining the relationship between columns E and L. Account 53281 is directly allocated to Canada mail categories, and thus no benchmarking is required. Canada air and surface costs are calculated separately.

Inputs.xlsm was adjusted to link the results of the FY20 CA Sur Trn Distri
Key.xlsx on the renamed Transborder Weights tab (previously Transborder Costs and
Factors) which are then linked to Outbound Calcs.xlsx on the trnadj tab on the table at
cell x27. These air and surface weights are used to distribute SIRVO weights because
there are some differences between SIRVO and FPS data. Outbound Calcs.xlsx
processes data for the non-NSA transportation flows and costs. These are unitized and
provided to the ICM Costing Module for calculating NSA transportation costs.

Cells i29..i43 of the TRNADJ tab distribute the estimated non-NSA surface costs to the Canada products. Cells j29..j43 distribute estimated non-NSA air costs to the Canada products. Benchmarking occurs in the same range in column m.

Additionally, the International Air Transportation Data 2020.xlsb file is adjusted to move surface parcel costs and weights from the ISAL category (where they were unused) to the Parcels category (where they are now used).